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Core Scientific, Inc.'s (CORZ) CEO Mike Levitt on Q2 2022 Results - Earnings Call Transcript

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Core Scientific, Inc. (CORZ) Q2 2022 Earnings Conference Call August 11, 2022 4:30 PM ET

Company Participants

Steven Gitlin – Senior Vice President-Investor Relations

Mike Levitt – Chief Executive Officer

Denise Sterling – Chief Financial Officer

Conference Call Participants

Lucas Pipes – B. Riley

Chris Brendler – D.A. Davidson

Stephen Glagola – Cowen

Kevin Dede – H.C. Wainwright

Steven Gitlin

Good afternoon, ladies and gentlemen, and welcome to Core Scientific's Second Quarter Fiscal Year 2022 Earnings Call. This is Steven Gitlin, Senior Vice President of Investor Relations for Core Scientific. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session after management's remarks. As a reminder, this conference is being recorded for replay purposes.

Before we begin, please note that on this call certain information presented contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include without limitation, any statement that may predict forecast, indicate or imply future results, performance or achievements, and may contain words such as believe, anticipate, expect, estimates, intend, project, plan, or words or phrases with similar meaning. Forward-looking statements are based on current expectations, forecasts and assumptions that involve risks and uncertainties, including but not limited to, economic, competitive, governmental and technological factors outside of our control that may cause our business strategy or actual results to differ materially from the forward-looking statements.

For further information on these risks, we encourage you to review the risk factors discussed in Core Scientific's periodic reports on Form 10-K and Form 10-Q filed with the SEC, and the Form 8-K filed today with the SEC, along with the associated earnings release and the Safe Harbor statement contained therein.

This afternoon, we're also filing a slide presentation with our earnings release, and we're posting the presentation on our website at corescientific.com in the Events & Presentations section. The content of this conference call contains time-sensitive information that is only accurate as of today, August 11, 2022. The company undertakes no obligation to make any revision to any forward-looking statements contained in our remarks today or to update them to reflect the events or circumstances occurring after this conference call.

Joining me today from Core Scientific are Chief Executive Officer, Mr. Mike Levitt; and Chief Financial Officer, Mrs. Denise Sterling. We will now begin with remarks from Mike Levitt. Mike?

Mike Levitt

Thank you, Steve. On behalf of our entire team, welcome to today's second quarter 2022 earnings conference call. On today's call we'll provide highlights from our second quarter, discuss our financial performance, comment on current market conditions, and provide thoughts on how we are structuring our company for long-term success.

Core Scientific operates more bitcoin mining servers in our facilities than any other public company in the United States. We have eight data centers operating in five states and expect to begin operation our ninth data center in Oklahoma within the next few quarters. Our purpose-built company owned data centers now hold over 200,000 servers and approximately 800,000 square feet. By year-end, we expect to be operating approximately 300,000 servers of which more than half will be for our own self-mining operations in over one million square feet.

I will discuss our future plans in more detail later in this call. But first I'd like to introduce my colleague and our CFO, Denise Sterling, to discuss our financial highlights.

Denise Sterling

Thank you, Mike, and good afternoon, I will review for – I will review results of our second quarter as compared to the same period one year ago. Total revenue consisting of self-mining, hosting and equipment sales increased by 118% to $164 million from $75.3 million, driven primarily by an increase in our self-mining revenue.

The total number of bitcoin produced in the second quarter was 3,365 compared to 180 for the three months ended June 30, 2021. The average price of bitcoin was $32,500, a decrease of 30% as compared to $46,500 for the three months ended June 30, 2021.

Total hosting revenue increased by 110% to $38.9 million, equipment sales for the quarter decreased by 90% to $30.5 million. As the majority of our hosting customers now purchase their miners directly from manufacturers for deployments in our data centers. Cost of revenue increased by a $100.5 million to $151.3 million. The increase was primarily attributable to an increase in our number of self-mining and hosted servers operating in our facilities.

Power consumption increased by $45.9 million, depreciation rose by $46.3 million and personnel and related expenses and facilities cost increased by $25.8 million. Related expenses included stock-based compensation of $16.9 million. The increases were offset by a decline on equipment sales of $17.6 million.

Cost of revenue for the three months ended June 30, 2022 included depreciation expense of $49.1 million of which $46.5 million was from the self-mining segment. For the three months ended June 30, 2021 cost of revenue included depreciation expense of $2.8 million of which $0.9 million was for self-mining segment.

With increases in energy prices, generally we expect our average power price for the year to now come in at about $0.05 to $0.055 per kilowatt hour. Prices do move around seasonally and the extreme heat across the south has impacted our pricing for the second quarter and will continue to do so in the third quarter. Gain from the sales of our digital assets was $11.8 million for the three months end of June 30, 2022, resulting from a total sales price of our digital assets sold up $265.8 million versus the carrying value of $254.0 million.

Consistent with prior quarters, we recorded several non-cash accounting entries in the second quarter of 2022, including the impairment of digital assets, impairment of goodwill, a fair value adjustment to our convertible notes and stock-based compensation. Impairment of digital assets increased by $150.2 million for the second quarter, as a result of a decline in our price in the price of bitcoin, an impairment is recorded when the carrying value of our digital assets exceed their fair value based on current market pricing.

We recorded a goodwill impairment of approximately $840 million due to a revaluation of our assets resulting from the sustained decline in bitcoin price. The decline in the market capitalization of public bitcoin mining companies, including Core Scientific and the uncertain outlook for our industry. We recorded a favorable non-cash fair value adjustment to our convertible notes of $195 million due to an decrease in their value resulting from the decline in our stock price. We will continue to mark-to-market our convertible notes each quarter.

Total operating expenses increased by $106.9 million to $115.9 million. This increase was primarily driven by $92 million of stock-based compensation representing 86% of the total increase. This resulted from the removal of the IPO transaction trigger from outstanding RSU awards that had previously met the time vesting requirement.

In order to ensure we are well positioned to achieve our objectives. We have taken a disciplined approach to reducing operating expense growth. We have eliminated the majority of our discretionary expenses reduced headcount by 10%, renegotiated vendor contracts and right size the organization to focus on our core business. We now expect our operating expenses in the second half of the year to be 25% lower compared to the first half of the year.

Net loss of $861.7 million decreased by $858.3 million from a net loss of $3.4 million. The increase in net loss was primarily driven by the non-cash items I spoke about earlier. Adjusted EBITDA increased by $38.3 million to $59.1 million. The increase was driven primarily by increased revenue of $88.7 million offset by higher cost of revenue, excluding depreciation and stock-based compensation of $37.3 million and increased operating expenses of $13 million excluding stock-based compensation.

Adjusted EPS for the quarter ended June 30, 2022 was $0.18 per share. Our total cash position at June 30, 2022, including cash, cash equivalents and restricted cash was $140.5 million a year-to-date increase of approximately $8.8 million. The primary drivers of this change included inflows from operations of $151.9 million and proceeds from borrowing of $415.1 million.

These sources of cash were partially offset by cash outflows for infrastructure costs to build our purpose-built data centers of $238.5 million payments to vendors for our ASIC servers of $217.7 million, interest and principle payments on our outstanding debt of $72.7 million and payment of tax obligations for vesting of employee RSUs of $29.3 million. By net settling our RSUs, we reduced our outstanding share count by approximately 14 million shares.

In order to better understand our self-mining business, cost structure and breakeven price for producing bitcoin, we are introducing a metric that we call cash to mine. It produces a view of the marginal cash cost to mine a single bitcoin, and represents the cash-based components of cost of revenue divided by the number of bitcoin mined for the period. There are two cash-based components of this calculation.

The first is our power cost, which is based on price per kilowatt hour. The second is our data center cash-based operating cost, which include the expenses required to operate, maintain, secure, and secure our data centers, including personnel and related expenses and facilities cost. These two components are included as part of our total cost of revenue. As the metric is cash-based, it does not include expenses such as stock-based compensation or depreciation.

For the first half of 2022, our power costs per bitcoin was approximately $8,500, and our data center operating costs were approximately $1,700. As such our cost, our cash to mine, a bitcoin for the first half of 2022 was approximately $10,200. We expect our cash to mine a bitcoin to vary quarter-by-quarter, primarily based on fluctuations and power costs and global hash rate.

Now, I would like to turn the call back over to Mike.

Mike Levitt

Thank you, Denise. In a previous earnings call, I explained that approximately two-thirds of our 2022 growth would occur in the second half of the year. We're now in the second half and we remain confident that will be the case. As we stand here today, we operate eight data centers in five states with approximately 800,000 operating square feet. By year-end, we continue to expect to have developed a total of over one million square feet of operating facilities.

We operate approximately 125,000 self-mining servers and expect to increase that number to approximately 170,000 by year-end. We operate 86,000 servers for our co-location customers and expect to increase that number to approximately 125,000 by year-end. We deployed 14,000 servers in the month of July and have already deployed more than 17,000 servers in the first 10 days of August. We are currently mining over 40 bitcoin per day on average, and yesterday we mined a record 45.7 bitcoin in a single day. Likely the most bitcoin ever self mined in a day by a public company.

As the market and economic environment deteriorated in the second quarter, we took a number of actions to ensure that our business remains well positioned to navigate these difficult times. We conducted a full review of our businesses, our costs, and our balance sheet.

First, I will address our balance sheet. On the asset side of our balance sheet, we've invested in excess of $1 billion in our infrastructure and our servers, since the company's inception. Our approximate $0.5 billion investment to develop world-class blockchain computing data centers will generate returns for years to come. No other company in the United States has invested as heavily or built as significantly infrastructure to support the production of bitcoin, while others search for infrastructure to support their business, we own control, and operate our own. By developing purpose built facilities, we have the ability to employ immersion or any other process that we believe will improve our productivity. We're currently running immersion pilot tests in a number of our data centers.

Our $0.5 billion plus investment in servers will also generate returns for years to come. Our servers should be mining bitcoin well beyond their depreciable life. We have built and maintained significant liquidity through these volatile times. We think it is prudent and we think it is wise. We have chosen to create liquidity by selling our digital assets. In the current environment, we don't do not believe it is sensible to increase our debt.

We have total debt of approximately $960 million excluding accounting reserve adjustments, totaling just less than $200 million as illustrated on Slide 12. Slightly more than $500 million of our debt is our privately placed convertible notes. Those notes mature approximately three years from now in April of 2025; they have little cash impact in the interim because they bear interest in cash at a rate of 4%. They have a non-cash 6% pay and kind feature and no principle payments required until maturity. We are very comfortable with the maturity in 2025 and the likelihood that our stock will be hopefully soon at a level where this debt converts to equity.

We owe B. Riley, approximately $57 million payable monthly over the course of the next 11 months. The loan was originally $75 million, but we have paid down $18 million already this year. Again, we are very comfortable with our obligations to B. Riley.

As for our equipment financing out of the 170,000 or so self-mining servers, we plan to operate by the end of the year, approximately 86,000 are currently encumbered by debt or leases. Equipment debt and leases total approximately $330 million today. Through the end of July, we have paid approximately $75 million in principle amortization this year and are comfortable with our ability to continue to service our equipment debt. We have multiple options for creating and maintaining liquidity.

We have and will continue to sell our bitcoin. Our current bitcoin production provides us the unique ability to replenish our digital assets rapidly. As we previously discussed, we have also entered into a $100 million equity line of credit. We can tap that line anytime over the next two years. Environments like this demand focus and require critical decisions. Since Core Scientific was founded. We have focused a majority of our time and capital investments on site selection, development, and technological innovation to facilitate the deployment and management of our infrastructure and mining servers.

We are a developer and operator of blockchain computing data centers. We own and operate more infrastructure and servers than any other company in the United States. That is what we do and who we are. That is our focus, building reliable geographically distributed data centers that enable the deployment and efficient operation of mining servers is the biggest challenge faced by the digital asset mining ecosystem.

This infrastructure did not always exist in the United States, and that is why Core Scientific accepted the challenge to build enterprise grade digital asset mining data centers five years ago. We have paired our business back to concentrate on what we do best developed data centers and operate ASICs in our purpose-built facilities. We have moved out of any business, not central to our mission and are focusing our resources on continuing to build our core business.

To that end, we have discontinued our blockchain technologies development business. We have taken costs out of our corporate activities and are continuing to develop ways to execute our business more efficiently. To date, we have eliminated approximately 10% of our workforce. None of whom are involved in our data center activities. While taking steps to become leaner and more efficient, we remain focused on growing our business and improving profitability.

The current market turmoil and difficulties facing other companies attempting to develop infrastructure have enabled us to work with our vendor partners to reduce expenses and build more efficiently. As such, we believe our near term data center development expenses over the next six months will be significantly less than what we had previously anticipated. We have paid for all, but approximately $10 million of the cost of the remaining 50,000 self-mining servers to be deployed. We are confident that all 170,000 of our servers will be up and running by year end. We hope to expand our self-mining fleet beyond 170,000, but if not yet, committed to purchase additional servers. We continue to make discounted offers for stranded new miners.

We took a long hard look at our hosting business. Historically, the business delivered low profitability. We will no longer take on hosting business that is not sufficiently profitable from day one. We have restructured our pricing to improve margins over time, including refinements to price per kilowatt hour, contract term, infrastructure and configuration fees and prepayment terms. We want our customers to make a profit, but we also want to ensure that our business is making money too. We fully expect our hosting business to be profitable in cash generative, going forward into 2023.

Over time, we think the hosting business should be a 20% to 30% EBITDA margin business, initial customer acceptance, including our recently announced agreements for 75 megawatts of co-location capacity validate our new strategy. Even during this challenging digital asset market, customers are eager to co-locate their servers at Core Scientific because of the value they see in our firm.

Now, let’s talk a little bit about the future. We continue to expect to achieve an operating cash rate of between 30 and 32 exahashs and 1 gigawatt of power by the end of 2022. This is based on the continued expansion of our server fleet to approximately 300,000 units, approximately 170,000 of which will be dedicated to self-mining and continued progress in our data center project in Texas, and Oklahoma, as well as continued demand from co-location customers.

Based on an end of 2022 network cash rate assumption of 250 exahashs, we expect to be producing or self-mining, approximately 2000 bitcoins a month by the end of 2022. Our self-mining fleet is new and efficient consisting of S19s, S19 Pros and S19 XPs. We are well positioned for years of productive mining.

Our company designed, developed, populated, and now manages the largest blockchain computer data center business for self-mining and co-location services in North America. As we disclosed in last week's July update, press release, we operated total hash rate of 19.3 exahashes, including 10.9 exahashes in our self-mining business as of July 31. We have built our leadership position in the blockchain infrastructure market by investing a total of more than $1 billion in infrastructure and servers since the inception of our business.

We have strategically located and developed data centers in diverse geographic areas. While we continue to curtail our growing operations in Texas in response to grid operator needs, the majority of our data centers are located in other states, reducing the impact of Texas specific events on our overall bitcoin production. Within Texas, we are working with ERCOT on the CLR program and aim to deploy our Minder software to help provide automatic demand response to the grid. Our track record of innovation and growth in our industry speaks for itself.

Denise introduced today our new cash to mine metric. Given the environment we are pleased with a cash cost of slightly in excess of $10,000 to mine, a single bitcoin in the first half of 2022. We believe this is an important way to assess our efficiency and future profitability. We offer a unique and powerful business model that represents a compelling equity investment in blockchain data centers and at a minimum, a levered investment to the price of Bitcoin. All said, despite the difficulties, our industry has endured this year, assuming a constant bitcoin price and modest growth in the global hash rate, we are on pace to generate nexus of $700 million in revenue and approximately $300 million in EBITDA.

Thank you to our amazing team who continue to focus on executing our plans during a very challenging time. Thank you to our customers for continuing to rely on Core Scientific and thank you to our shareholders who remain committed to the long-term opportunity this company, and this team are working to realize.

Steve, we will now take questions.

Question-and-Answer Session

A - Steven Gitlin

Thanks Mike. [Operator Instructions] Our first question comes from Lucas Pipes at B. Riley. Hi Lucas.

Lucas Pipes

Thank you very much, Steve. Good afternoon, everyone. Mike I want to thank you for the disclosures. This is really, really terrific detail. Both in the released the presentation, and also prepared remarks – appreciate that.

Mike Levitt

Thank you. Thanks, Steve and Denise and all my colleagues.

Lucas Pipes

Yes, this is really good. Good work. And I want to follow up on the power price a bit. I think you mentioned $0.055 prepared remarks or it was mentioned just wanted to confirm that. And then if you could maybe speak, maybe pushing power prices up and down. Obviously there are inflationary pressures on the power side, but then you're also expanding in Texas. So wondering how kind of power costs could evolve the next six months, 12 months. Thank you very much for your color.

Mike Levitt

Sure. So, we think that all things considered heat waves, pressure on energy prices, macro economics, et cetera, that a reasonable full year assumption is in that $0.05 to $0.055 range. There are a number of things that move it around. One is certainly seasonality. So, our power prices are probably net a bit higher in these warm months, especially when you get, 50 days of a hundred degree temperatures across the south, including Texas, that has an impact. And there's also sort of a less well known aspect of developing in Texas, which is that generally speaking, the power prices are a bit higher as you develop a facility and then as the facility scales, those prices come down considerably.

And so it's fair to say, we think that our pricing in the fall and winter will probably come down from where it is this summer. It's also I think fair to assume that as we have our Texas facilities fully scaled going into next year, that on average, our power pricing overall should come down a bit, from where we expected to be full year this year, because we are, to our detriment, we're ramping Texas this year. It's not fully up to scale by the end of this year our facilities in Texas will be fully scaled. So it's going to move around a bit from this year to next year, but we expect that to be a positive movement as opposed to a negative movement. Did that answer your question Lucas?

Lucas Pipes

Very, very helpful. Really appreciate the color. And then staying on the topic of cost, I think was also mentioned in the prepared marks that you expect operating expenses to decline by about 25%. And I wonder what sort of first did I hear that? Right. And then what are some of the drivers that bring those costs down? Thank you very much.

Denise Sterling

Yes. No, thank you so much for the question. I think, consistent with what you – what we commented on earlier we really did take a disciplined approach. Quite frankly, it was more surgical than suggesting that we were going to take across the board reductions. And so, as we suggested the really the cost savings were around personnel and or areas of our organization that were not necessarily part of that core business, as Mike had suggested that we were really doubling down on and going to focus on.

In addition to, taking a look at some of our project related professional fees and things of that nature, where we said, look, we have the ability to control these and the timing, and if they were not, if they were discretionary that, we literally took a position that they were going to be eliminated. I don't think that this has a significant impact on our ability to meet our objectives. And as Mike had suggested, we did not impact anybody from a data center perspective.

Lucas Pipes

Thank you. I'll try to squeeze one last one.

Steven Gitlin

Go ahead, Lucas.

Lucas Pipes

If possible. Sorry, sorry about that. Just I'm, I was hoping it might be possible to quantify the backlog on the hosting side, but we continued to hear a lot about shortages. You mentioned some of the peers having securing data center space, so how would you frame that up?

Mike Levitt

So, I think it's fair to say that what we hear from prospective customers anecdotally is that there continues to be a lack of availability of up and running now or in the near term infrastructure. That a number of folks have been, highly disappointed with the delays that, have occurred. We announce our now make a habit of any of significance announcing, any significant hosting agreements as they occur in order to kind of provide as much transparency in that regard as we can. It continues to be the case that we are in dialogue with demand that exceeds our capacity this year. Generally speaking, it does take, some time to get to agreement. We think that we'll have some additional announcements this quarter with regard to hosting, but there is no guarantee of that, right?

Of course, strength in bitcoin pricing helps. But the other aspect of it is as a lot of folks that don't have a home for their mining equipment also don't have capital. And as we stated in our prior earnings call, we are only interested in working with co-location customers that have the ability to make prepayments and are very, very credit worthy as such. And so we're not talking to everybody, that's got rigs on the ground in warehouses. We are talking to the folks that have capital and rigs on the ground. And that said, the pipeline is very strong, but we're also quite sincere about making sure that our hosting business is a profitable business.

In the call, it the good old days, we used to be a reseller of servers, and there was margin in that. And we could look at the margin in that and combine that with our hosting agreements and look at the overall profitability. Now that we really don't have a very vibrant reseller business, because most folks are going direct to the manufacturers. Our hosting business needs to stand on its own two feet without the benefit of margin coming from equipment sales.

And so, for some folks, that's a bigger hill to climb, but as demonstrated by the 70 megawatts of agreements that we recently announced, there are folks that are well capitalized and recognize the value in terms of the up times, the efficiency, the life of the servers and the technology overlay, they recognize the value. But without the benefit of those resale margins, we had to take a good, hard look at the hosting business and reconstructed a little bit to make sure that we're getting paid for the investment, we've made in infrastructure and technology and the capabilities that we offer.

Lucas Pipes

Thank you very much. And you and the team. Best of luck.

Denise Sterling

Thank you.

Steven Gitlin

Thanks, Lucas. Our next question comes from Chris Brendler at D.A. Davidson. Good afternoon, Chris.

Chris Brendler

Hi, Steve. Thanks a lot for taking my question and congratulations on the results and really echo comments earlier, but the disclosure very, very helpful. Thank you so much. Along those lines and really enjoy, hearing more details about your power costs and the outlook. I think that's been a key question that a lot of us on the outside have been wrestling with. Mike, if you could maybe talk to some specifics, if you can sort, I think there's been some challenges in Georgia just getting sort of contracts aligned and then in Texas, are you currently able to sell power back to the grid and take advantage of these power – these spikes and prices? Or is that still on the come? Thanks so much.

Mike Levitt

So, we have not earned revenue from Texas for curtailing, obviously we think it benefits our power costs, but we are not in the, in an earning revenue mode. We are working, as we mentioned today on implementation of the CLR program, utilizing our software and technology capabilities, that's something that we hope to have in position sometime this year. But it probably will not be something that's in position by the time the heat wave, hopefully subsides within the next few weeks. But in the future, we very well may have the ability to in fact, have a mutually beneficial economic relationship with the grid operator, but we'll just have to see where that goes.

With regard to our facility in Georgia, we've been working with the power provider there to do sort of the best they, and we can they are, that is the one place where we have the greatest what I would call exposure to the variability of natural gas pricing. And so we've been working with them to try to develop as efficient a program as possible. And but it absolutely does impact our overall cost right now and has, and that's part of what has driven our us to raise our full year estimate for where power pricing is coming in, has been, kind of that facility, that factor as it relates to that power provider.

Chris Brendler

Okay, great. And then a bigger picture question for you, Mike is, as I've been talking to investors and sort of wrestling with the outlook here as prices have come down, but now stabilizing and thinking about the having in 18 months or so, or a little more than that. I think I'm really focused on companies that can take advantage of advantaged power relationships and, or more efficient mining operations. So, can you give me like your high level thoughts on sort of behind the meter facilities that potentially would use renewables or fleet upgrades, immersion technology, have you ordered, where do you stay on the XPs? Is that going to be a significant part of your rig portfolio by the end of next year? So some of those high level comments would be great. Thanks.

Mike Levitt

Sure. In no particular order, one we mentioned that we've been running immersion testing in a number of our facilities. And immersion to us is simply an economic question is, can we get the efficiency and productivity that makes it worth the expense? We've been testing equipment from a number of immersion equipment providers to see what we like to see what is efficient to see, what's worth the cost, et cetera. I would be, surprised if when the, within the next 12 months we are not operating some considerable portion of our self-mining fleet in an immersion setting. So that's one.

Two, we are trying to skew all of our development activity to more and more efficient and predictable power provision. Looking back, clearly perhaps the Georgia facility, wasn't the best decision we ever made. I wasn't in this seat at the time. But, we're trying to work that out with the power provider there. That said, we're going to be developing where we think we've got a really good handle on power, and as higher predictability as possible. And that's true with our Texas sites. It's true with our Oklahoma site. We feel pretty good about those, those facilities and those facilities probably buy into, some point next year in the aggregate, will be a considerable percentage of our operating facilities.

We are actively engage in conversations about alternative forms of power supplemental or other behind the meter and otherwise, I think that everybody in our industry is doing so, because we would all like to get our power costs down prior to mid-2024 and to be managing them as inexpensively and prudently as we possibly can. There's nothing that we, sitting here today, can tell you or can promise, but we can say that we're working very hard, on all of that.

As we also mentioned, about our facilities, one of the nice things about having purpose built facility is not only are they purpose built, but they are repurposeable. And so the fact that, our business is not really built on steel containers in an exposed environment, but rather in structures allows us a lot more flexibility in pivoting to more efficient mining processes

Chris Brendler

That **makes** sense. And thanks so much for that detail. What about the XPs? Are you, I can't remember if you, I don't think you placed a huge one at the peak of the market. So that was probably a smart thing.

Mike Levitt

I forgot about that part of your question. Yes, the answer is yes, we do have XPs coming and as we mentioned, we've look, we are trying to be very, very efficient buyers in this market. There are a lot of stranded servers that are here today and that are coming tomorrow. And again, can't promise that any of our conversations will be fruitful, but like you would expect, we're trying to pick up some high quality equipment at low prices. Let's say, that's it we'll see how it plays out the next six months.

Chris Brendler

No, I figure out patients there to be well rewarded. Thanks so much. Appreciate the comments and we'll catch up later. Thanks.

Mike Levitt

Thanks for your questions.

Steven Gitlin

Thank you Chris. [Operator Instructions] And our next question is coming from Stephen Glagola at Cowen. Good afternoon, Stephen.

Stephen Glagola

Hey, good afternoon, Steve. Thanks for the question. I just want to drill down a little bit more on the cost a bit more. Denise, you listed where the 25% OpEx is coming out of does that exclude non-cash items?

Denise Sterling

It does.

Stephen Glagola

Thank you. And also Mike, I just wanted to get more color on the decision to amend the performance condition that allowed for the RSUs to vest. If you can just provide any color on that, that'd be great.

Mike Levitt

Sure. it wasn't a performance condition without throwing any lawyers under a bus, the way the RSU program was drafted way back when as opposed to being drafted, saying that, there was a an event condition, which would be, a sale of the company or a going public, it set up a sale of the company, if you will, or technically an IPO and it just inadvertently frankly, missed that you can go public through a spec.

And so those RSUs were all already time vested. It represented frankly, five years of RSUs for our people. And so what our board was doing was fulfilling what had been the intention and which makes a lot of sense, right, that's how companies usually work, you've got time vesting. And then of course, you've got when you, when you go public, plus when you time vest, for whatever reason, the way it was drafted required our board to take action or the RSUs would've – they, even though were public, they would ever get their RSUs. And I don't know about my colleagues, but if I was never going to get my stock, I'm not sure I would've stayed. Right. So, it really was to correct something that just wasn't in my view, drafted properly when it was originally set up years ago.

But to be clear, we didn't accelerate, anybody's RSUs every one of those RSUs and our RSUs vest over four years, it's not like it's a short vesting period or anything like that. All of those RSUs had met the time vesting requirement. So it was a very technical issue that, that occurred. Now, we did elect to do a net settlement and frankly, the reason was, and it looks like it was a pretty smart trade now was that our stock price at the time was so low that by net settling, we could effectively pull what was 4% to 5% of our outstandings out at a price that's well below where the stocks trading today. Did that answer to your question?

Stephen Glagola

Yes, yes, that was very helpful. Thank you. If I can just ask one more follow up here on the June update, I believe you said approximately 90% of the rigs were already paid for, was there a downward market price adjustment on that 90%? And if so, could you quantify it? And then additionally, like what is the remaining CapEx, if any, on the infrastructure spend? Thank you.

Mike Levitt

So the answer is, yes. As I think we've said in the past, our agreements have the market price adjustment or mechanism in them. And yes, our manufacturer was did the right thing and was kind enough to agree that a market price adjustment was warranted, and that certainly significantly reduced our obligation as it related to those machines. And because we'd already paid in so much, because there's such near term deliveries, it more or less, took away, most of what we owed at the time.

So it was, yes, it was principally related to the adjustment. I don't remember the exact magnitude, frankly of what we had left versus what they reduced at that time. But it was in the tens of millions of dollars order magnitude, it wasn't $2 million or $3 million bucks. It was, yes, it was, and I think was in that $20 million to $30 million [ph] range, but I don't remember precisely. So, that did have a very beneficial impact for us. What was the second half the question?

Stephen Glagola

Just on the remaining infrastructure CapEx. If they're – what's remaining there? Thank you.

Mike Levitt

So, we are currently sitting at about 600 megawatts operating, and to get to where we need to get to that kind of plus or minus a gig, which takes care of our miners and our contracted hosting. You know, that's in the order of magnitude of $50 million to $75 million to get that up and running fully.

Stephen Glagola

Okay. Thank you very much, Mike. Appreciate it.

Mike Levitt

Yes, and the reason I give you a little bit of a range is, I should have thanked also our vendors at the end of my thank you, because the folks we work within developing our infrastructure have been great partners in this timeframe as well, which we're appreciative of. As you know a lot of folks have had to cancel or with on orders for everything. It's not just minors, it's also transformers. And I think our partners appreciate that, we're still in there and making our payments, but in turn, they've also been good partners to us and we've benefited from some price reductions on some of the development activities we've got going on.

Stephen Glagola

Thanks.

Steven Gitlin

Thank you, Stephen. Our next question comes from Kevin Dede at H.C. Wainwright. Hi, Kevin.

Kevin Dede

Hi, Steve. Hi, Mike. Thanks for having me on. Congratulations everything you've done. Hey, Mike, you and the team are super aggressive in site selection and build out. I was wondering if you just sort of at a high level kind of kick off the primary – sort of the primary attributes of each site as you work into them. Just sort of based on your experience in Georgia, I'm kind of wondering how you've shifted cores approach?

Mike Levitt

Fair question and a good question. And I know particular order, one is, is power provision and predictability of that power provision related to that is being closer to the actual provider of power one of the issues that we face in Georgia. And the folks in Georgia, they're good folks. Okay. And I like them and we're all trying to be constructive and work through the issues, but they are generally a buyer. It's a utility company. They're generally a buyer of power, and then a provider of that power, as opposed to a producer of power. We want to be closer to the production as oppose to simply the provision. So that's one call it, lesson learned attribute that we are very focused on.

Second has to do with some of these grid and weather inter relationships, right. We love our sites in Texas, and we like the folks in Texas and we're based in Texas. And I recognize that this is an unprecedented heat wave, but it's still not very fun to be curtailing, kind of four hours to five hours a day when it's 104 degrees, that has implications for our productivity. And so we need to be very careful about what percentage of our operations reside where you can have that kind of an issue, right. Is second.

Third is, is certainly our ability to get closer to renewable resources and kind of the behind the meter aspects that we were asked about. Fourth, has to do with availability of talent and what is a hard to hire environment. We need good people, good maintenance techs that we can train in our facilities. So, we are running, big, high powered facilities with on average, more than 30,000 servers in each, we're running them 24/7. So, you need that. I think early on, we got the gig to make sure we were coming to places where we're welcome where we're invited, where they want us, where they're glad to have us.

And so I think our local relationships have all been very, very good. We really haven't had any sort of governmental, political kind of issues. And scalability, I think early on, we were trying to make sure we could create facilities that were 100 megawatts, 150 megawatts. I think we're leaning more into 200 megawatt plus type sites. Now, we believe it's important to be geographically diversified for all sorts of reasons I've talked about in the past, some of which have been, demonstrated this summer. I don’t know, Kevin, that's kind of my off the top of my head list. I'm sure that Weston Adams front infrastructure would have more.

Kevin Dede

No, I'll all sensible points. Thanks for indulging me. And please don't take offense to this. I'm just super curious about the prospects in Georgia, Volvo 3 and Volvo 4 coming on. I'd expect that could change pricing, and I'm just kind of wondering what your people have told you, if there might be any sort of benefit to that?

Mike Levitt

I don't think they're related, really to what we are doing, given our, where we are, it's just different plan.

Kevin Dede

Right. Okay. Circling back on immersion, you mentioned a couple of tests. I was wondering if you could speak to end of the data that you're seeing, sort of where you've pushed the envelope to? How the kind of performance improvement you're seeing? And any sort of initial feedback on these initial tests?

Mike Levitt

No, it's still too early to, probably too early to comment. I don't want to speculate, sorry.

Kevin Dede

Yes, no, no apologies. Understood, fair. Do you think that any of the Texas heat issues could be mitigated through that technology? Or is it really more of an air car asks you to decision?

Mike Levitt

It's really more of a grid curtailment issue than it is a inability to operate the equipment, in a passive air environment. When the grid gets down to kind of under 10 gigawatts, probably under six gigs of excess capacity we get phone calls, because we're the, even though the entire industry, probably isn't one gig in the state yet, we can represent call it 20% of the excess capacity. We're less than we're less than 1.5% of the total capacity, but we're 20% of the excess capacity when they're trying to run up four gig to five gig excess.

Kevin Dede

Right. So, I know you've been questioned on this already, so apologies again, Mike. But can you talk to the length of time it might take before you're able to leverage your PPA into a sale agreement?

Mike Levitt

No. Look, we're having really constructive conversations with the folks at ERCOT. They're good people look. We're trying to be a good citizen, right. We want to do what's right for our company. We want to do what's right for Texas. And so it's just too early to talk about how that's going to come out.

Steven Gitlin

Kevin, we really appreciate – we appreciate the questions in the interest of schedule. We're going to have to call it here. We thank everybody for your attending.

Kevin Dede

No problem, understood, Steve. I just wanted to thank you all for entertaining the questions. Really, really great to speak to you both again.

Mike Levitt

You too.

Steven Gitlin

Thanks, Kevin. And at this point we thank you all for your attention and for your interest in Core Scientific and archive version of this call, all SEC filings and relevant company and industry news can be found on our website corescientific.com. We wish you a good day. Good afternoon. Good evening. And we look forward to speaking with you again, following next quarter's results.